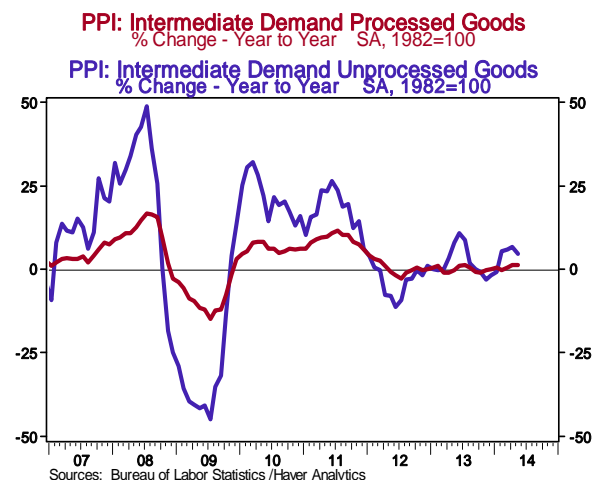
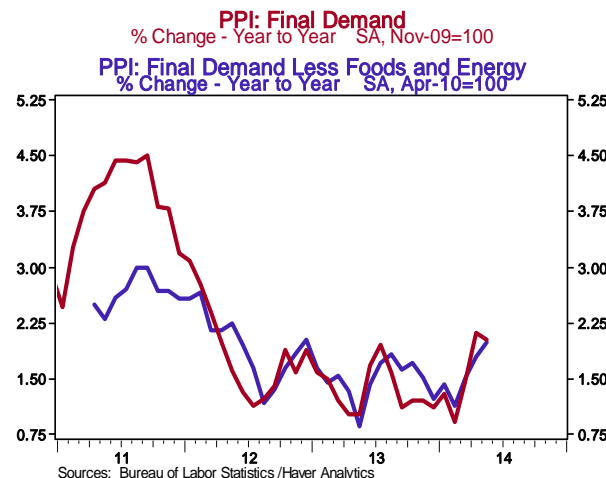


May PPI

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- The Producer Price Index (PPI) declined 0.2% in May, coming in below the consensus expected increase of 0.1%. Producer prices are up 2.0% versus a year ago.
- The decline in producer prices was broad based, with both services and goods prices down 0.2%.
- In the past year, prices for service are up 2.2% while goods prices are up 1.9%. Private capital equipment prices declined 0.1% in May but are up 1.8% in the past year.
- Prices for intermediate processed goods declined 0.1% May, but are up 1.3% versus a year ago. Prices for intermediate unprocessed goods were unchanged in May, and are up 4.5% versus a year ago.

Implications: One thing for sure: The government’s new measure of producer prices, which now includes services, is just as volatile as the old one. Following two months of large gains, producer prices dipped 0.2% in May, led lower by a 0.5% decline in the index for trade services. In the past year, producer prices have increased a moderate 2.0%. But, in the past three months, producer prices are up at a 3.7% annual rate. The acceleration is most prevalent in prices for services, which account for over 60% of the total index. Services prices are up 2.2% in the past year but have climbed at a 4.5% annual rate in the past three months. By contrast, goods are up 1.9% from a year ago and have climbed at a similar 1.8% rate in the past three months. Prices further back in the production pipeline (intermediate demand) are mixed. Prices for processed goods are down over the past three months, both overall and excluding food and energy. Prices for unprocessed goods are up at a 1.2% annual rate in the past three months, a slower pace than the 4.5% increase in the past year. Taken as a whole, the trend in producer price inflation is hovering around 2%. Given loose monetary policy, this trend will likely move higher in the year ahead. If anything, the Federal Reserve should be tapering quantitative easing faster than it already is. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth. Loose monetary policy is gaining traction and we expect both real GDP growth and inflation to accelerate in the year ahead.



Producer Price Index <i>All Data Seasonally Adjusted</i>	May-14	Apr-14	Mar-14	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.2%	0.6%	0.5%	3.7%	2.0%	2.0%
Goods	-0.2%	0.6%	0.0%	1.8%	3.2%	1.9%
- Ex Food & Energy	0.0%	0.3%	0.1%	1.5%	2.4%	1.4%
Services	-0.2%	0.6%	0.7%	4.5%	1.5%	2.2%
Private Capital Equipment	-0.1%	0.6%	0.1%	2.3%	1.5%	1.8%
Intermediate Demand						
Processed Goods	-0.1%	0.0%	-0.2%	-1.2%	2.7%	1.3%
- Ex Food & Energy	-0.2%	0.2%	-0.2%	-0.8%	1.6%	0.7%
Unprocessed Goods	0.0%	0.4%	-0.1%	1.2%	18.8%	4.5%
- Ex Food & Energy	-0.7%	0.9%	0.5%	3.0%	4.8%	0.6%
Services	-0.4%	0.1%	0.4%	0.4%	0.4%	1.3%

Source: Bureau of Labor Statistics